

 **Macro-economic Situation**

A tiny adjustment in the wording about Renminbi's future direction in China central bank's quarterly report on their monetary policies has recently ignited fears across the market that China government might abandon their consistent policy of closely linking Renminbi with US dollar alone and adopt a new policy of coupling Renminbi with a basket of selected currencies, thus allowing Renminbi to appreciate in the near future. The anticipation of Renminbi's appreciation drove China stock market B, which is the main channel for foreign investors to invest in Renminbi assets, to a new high in the past 17 months. However, amidst these fears some local analysts and think tanks still recommending central government to stick to their current policies on Renminbi exchange upon the thinking that the imbalance in global trade can not be solved by Renminbi's strength and there are few signs of recovery in China's exports, while others forecasting that Renminbi is likely to be maintained at the current values in the near future and might well be moving up around the end of next year.

Meanwhile, private analysts are suspecting official economic data with some raw materials production's growth not matching overall investment growth. They put much more faith in the actual data about cement, steel and electric energy productions and use them to test whether official investment data are overestimated or not. Current raw materials production data show the actual investment growth is lagging behind officially released one 5-10 points.

Domestic rubber traders are estimating that China rubber industry's growth might decline for the first time this year wrapping up 30 years' consecutive growth since 1979 when central government launched a massive reform in economic and political structures with the most pessimistic estimates indicating a decline of 13% in tyre industry and 10% in rubber industry and a 5 mmt of drop in rubber consumption while the most optimistic estimates showing this year's situation to be even with last year at the best. China Rubber Industry Association is recommending government to lower natural rubber import tariff further and raise the export tariffs rebate for tyre exports.

China National Petroleum Company (CNPC), the largest state-owned company that specializes in tapping crude oil, has reportedly signed a memorandum with UOP LLC, subsidiary of Honeywell, on cooperation in developing biofuels technologies and projects by utilizing biomass in China.

## **Government Grains Policy**

Policy makers are reportedly considering an alternative way to purchase oilseeds from domestic market and expand their reserve. That is to franchise the purchase of local beans to selected crushers in the northeast by giving them a certain amount of subsidy so that local beans farmers might sell their beans at price levels higher than their cost and crushers might obtain local beans supplies at tolerable prices. Actually this way has been tried in purchasing local rapeseeds this year and proven a success according to traders working with Sinograin. However, no matter which way they are going to adopt, one thing is for sure that the state reserve of grains and oilseeds needs to be expanded politically and economically.

## **Domestic Livestock Market**

Hog and pork prices would normally set back in the second half October and the first half of November and then move up quickly around the end of the year according to a veteran hog raiser. The survey recently conducted by national statistics bureau covering 200 major hog producing counties also indicates the hog prices were averaging RMB11.50/kg during the last ten days of October, down by 1.42% from the same period last year. Hog prices have started to creep up now especially in the south with current prices averaging RMB11.80/kg according to a hog trader over there.

Hog and other agricultural produces got enough limelight in leading the rally of the overall prices in the last two years but now have turned out to be one of the reasons behind the deviation between overall prices and money supplies. Foods share in CPI accounts for 32.79% while pork weight in foods sector accounts for 9.26% and in CPI 3.03% this year according to national stats bureau.

Subsidy and insurance programs for sows across the country have encouraged lots of pig farmers and smaller individual farmers to raise sows and expand their capacity over the past two years, thus increasing the supplies pork continually and persistently pressing down hog prices and closing in on break even point of raising pigs when lows were set in place around the end of last month. The crush margin of hog raising is ranging between RMB50-100.00/head now, which is much thinner than its normal level.

## **Domestic Grains Market**

The current average crush margin for coastal crushers can be calculated as follows,

-average meal price: RMB3,500.00/mt, meal value:  $3,500 \times 0.78 = 2,730$

-average oil price: RMB7,100.00/mt, oil value: 7,100 x 0.18	=	<u>1,278</u>
-total products revenue:		4,008
-average crushing cost:		<u>120</u>
-break even bean value:		3,888

The spot beans are quoted between RMB3,850-3,900.00/mt at present. Cheaper shipments of imported beans however are expected to flow into domestic market one after another starting from some time in the last week of this month and swarm into China in large quantities next month. The average cost of those shipments is estimated to be somewhere between RMB3,500-3,700/mt. Local crushers might continue to have good times by crushing those beans if US dollar does not reverse its downward movement and soycomplex prices on CBOT are sustained at current high levels in the coming months. Local crushers have learned to look to CBOT to price their products prices on domestic market now.

Pls feel free to contact me if you have any question and comment.

Best regards

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